

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|  |                                  |   |                  |
|--|----------------------------------|---|------------------|
| Local Government Type:<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                  | Local Government Name:<br><u>City of Eastpointe, Michigan</u>   | County<br>Macomb |
| Audit Date<br>June 30, 2004  | Opinion Date<br>October 29, 2004 | Date Accountant Report Submitted To State:<br>December 30, 2004 |                  |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

| We have enclosed the following:                                     | Enclosed                            | To Be Forwarded          | Not Required                        |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations.                         | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/>            |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU).                                       | <input type="checkbox"/>            | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

|   |                     |             |              |
|---|---------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>                                    |                     |             |              |
| Street Address<br>10 South Main Street, Suite 200   | City<br>Mt. Clemens | State<br>MI | ZIP<br>48043 |
| Accountant Signature<br> |                     |             |              |

# **City of Eastpointe, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Eastpointe, Michigan

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# City of Eastpointe, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Eastpointe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



To the Honorable Mayor and Members  
of the City Council  
City of Eastpointe, Michigan

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eastpointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 29, 2004

# City of Eastpointe, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Eastpointe's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$443,000 this year. The City reacted by reducing programs, staffing levels, capital spending, and by invoking tighter controls over all expenditures. The result of the City taking these proactive measures in the area of expenditure control was an increase in fund balance of \$163,417.
- Total net assets related to the City's governmental activities increased by approximately \$359,000. However, the unrestricted portion of net assets increased by approximately \$708,000 (see table of net assets on the following page).

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City of Eastpointe as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements are found on pages 23-44. These notes are an integral part of the financial statements and should be read in conjunction with the remainder of the financial statements. It may be useful to read the notes prior to any detailed review of the various statements throughout the report.

# City of Eastpointe, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Eastpointe as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

TABLE I

|                              | Governmental Activities |                  | Business-type Activities |                  | Total            |                  |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
|                              | 2004                    | 2003             | 2004                     | 2003             | 2004             | 2003             |
| <b>Assets</b>                |                         |                  |                          |                  |                  |                  |
| Current assets               | \$ 9,578                | \$ 8,157         | \$ 10,355                | \$ 8,402         | \$ 19,933        | \$ 16,559        |
| Noncurrent assets            | <u>23,259</u>           | <u>22,862</u>    | <u>11,194</u>            | <u>11,430</u>    | <u>34,453</u>    | <u>34,292</u>    |
| Total assets                 | 32,837                  | 31,019           | 21,549                   | 19,832           | 54,386           | 50,851           |
| <b>Liabilities</b>           |                         |                  |                          |                  |                  |                  |
| Current liabilities          | 1,206                   | 1,223            | 1,034                    | 842              | 2,240            | 2,065            |
| Long-term liabilities        | <u>17,112</u>           | <u>15,636</u>    | <u>37</u>                | <u>62</u>        | <u>17,149</u>    | <u>15,698</u>    |
| Total liabilities            | <u>18,318</u>           | <u>16,859</u>    | <u>1,071</u>             | <u>904</u>       | <u>19,389</u>    | <u>17,763</u>    |
| <b>Net Assets</b>            |                         |                  |                          |                  |                  |                  |
| Invested in capital assets - |                         |                  |                          |                  |                  |                  |
| Net of related debt          | 7,702                   | 8,506            | 7,863                    | 8,213            | 15,565           | 16,719           |
| Restricted                   | 3,864                   | 3,409            | -                        | 3,218            | 3,864            | 6,627            |
| Unrestricted                 | <u>2,953</u>            | <u>2,245</u>     | <u>12,615</u>            | <u>7,497</u>     | <u>15,568</u>    | <u>9,742</u>     |
| Total net assets             | <u>\$ 14,519</u>        | <u>\$ 14,160</u> | <u>\$ 20,478</u>         | <u>\$ 18,928</u> | <u>\$ 34,997</u> | <u>\$ 33,088</u> |

The City of Eastpointe's combined net assets increased approximately 5.8 percent from a year ago, from approximately \$33.1 million in 2003 to \$35 million in 2004. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$359,000 in net assets, or 2.5 percent during fiscal 2004. The business-type activities experienced a \$1.5 million increase in net assets, or 8.2 percent. This is largely due to an increase in water and sewer rates to fund planned infrastructure improvements.

Unrestricted net assets, the portion of net assets which can be used to finance day-to-day operations, increased by approximately \$708,000 for the governmental activities. This represents an increase of approximately 31.5 percent. The current level of unrestricted net assets for our governmental activities stands at \$2.9 million, or about 12.2 percent of expenses.



# City of Eastpointe, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

TABLE 2

|                                       | Governmental<br>Activities |                 | Business-type<br>Activities |               | Total           |                 |
|---------------------------------------|----------------------------|-----------------|-----------------------------|---------------|-----------------|-----------------|
|                                       | 2004                       | 2003            | 2004                        | 2003          | 2004            | 2003            |
| <b>Revenue</b>                        |                            |                 |                             |               |                 |                 |
| Program revenue:                      |                            |                 |                             |               |                 |                 |
| Charges for services                  | \$ 3,929                   | \$ 3,846        | \$ 8,854                    | \$ 8,035      | \$ 12,783       | \$ 11,881       |
| Operating grants and contributions    | 2,402                      | 2,216           | -                           | -             | 2,402           | 2,216           |
| Capital grants and contributions      | 790                        | 549             | -                           | -             | 790             | 549             |
| General revenue:                      |                            |                 |                             |               |                 |                 |
| Property taxes                        | 12,176                     | 12,282          | -                           | -             | 12,176          | 12,282          |
| State-shared revenue                  | 3,930                      | 4,373           | -                           | -             | 3,930           | 4,373           |
| Interest                              | 146                        | 114             | 88                          | 85            | 234             | 199             |
| Bond refunding                        | -                          | 2,412           | -                           | -             | -               | 2,412           |
| Gain (loss) on sale of capital assets | (125)                      | 7               | -                           | 1             | (125)           | 8               |
| Cable fees and other                  | 284                        | 264             | 283                         | 62            | 567             | 326             |
| Transfers and other revenue           | 1,093                      | 736             | (1,093)                     | (736)         | -               | -               |
| Total revenue                         | 24,625                     | 26,799          | 8,132                       | 7,447         | 32,757          | 34,246          |
| <b>Program Expenses</b>               |                            |                 |                             |               |                 |                 |
| General government                    | 6,874                      | 6,029           | -                           | -             | 6,874           | 6,029           |
| Public safety                         | 9,865                      | 9,411           | -                           | -             | 9,865           | 9,411           |
| Public works                          | 4,231                      | 4,284           | -                           | -             | 4,231           | 4,284           |
| Recreation and culture                | 2,964                      | 2,556           | -                           | -             | 2,964           | 2,556           |
| Interest on long-term debt            | 332                        | 392             | -                           | -             | 332             | 392             |
| Water and sewer                       | -                          | -               | 6,665                       | 6,456         | 6,665           | 6,456           |
| Total program expenses                | 24,266                     | 22,672          | 6,665                       | 6,456         | 30,931          | 29,128          |
| <b>Change in Net Assets</b>           | <b>\$ 359</b>              | <b>\$ 4,127</b> | <b>\$ 1,467</b>             | <b>\$ 991</b> | <b>\$ 1,826</b> | <b>\$ 5,118</b> |

### Governmental Activities

The City of Eastpointe's total governmental revenues were approximately \$24.6 million, despite decreases in state-shared revenue and building permits. These decreases were offset by an increase in interest income, charges for services, transfers, and other revenues.

Governmental activity expenditures of approximately \$24.3 million were recorded for the year. Program expenditures increased over the previous year due to increases in police overtime, recreation, and general government for operational costs and health care costs. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring, programs, nonessential overtime hours, and capital purchases.

# City of Eastpointe, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The City of Eastpointe's business-type activity consists of the Water and Sewer Fund. The City provides to residents water purchased from the City of Detroit Water System. The City provides sewage treatment through the Southeast Macomb Sanitary District. Fiscal year 2004 was a drier than average year, which resulted in a marked increase in the volume of water sold. This resulted in an increase in operating income.

### The City of Eastpointe's Funds

Our analysis of the City of Eastpointe's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Eastpointe as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and the voted special property tax millages. The City of Eastpointe's major funds for 2004 include the General Fund, the Fire Fund, the Garbage and Rubbish Collection Fund, Major and Local Streets Funds, the Capital Improvement Fund, and the SEMSD Clean Water Initiative Fund.

The General Fund accounts for most of the City's governmental services. The most significant is police, which incurred expenditures of approximately \$5.6 million in 2004. The cost of the police department is funded by other general revenue sources of the General Fund. Fire services are supported by General Fund contributions and a special ALS/Fire millage, all of which are recorded in the Fire Fund. This fund recorded the receipt of approximately \$635,000 from the special millage and a transfer of approximately \$2.3 million from the General Fund. The amount transferred from the General Fund is determined based on estimated costs to maintain ALS/Fire services, as well as specific capital outlay approved by the City Council. The Equipment Replacement Fund is used by the City to account for most capital outlay expenditures. Transfers from other funds, antenna lease revenue, and equipment rental fees support this fund.

# **City of Eastpointe, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council and City administration monitor and amend the budget to take into account unanticipated events during the year. The most significant change was a decrease in state-shared revenue. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. At year end, actual General Fund revenues came in \$121,381 over the amended budget. The City of Eastpointe's departments overall stayed below budget, resulting in total expenditures \$568,702 below budget. Expenditures were under budget primarily due to savings from personnel vacancies and reduced recreational programs. Mid-year, and again at year end, the City amended the budget to reflect reductions in health care costs and debt obligations. In addition, departments were required to find expenditure savings to offset unanticipated increases in operational expenditures that included police overtime. As a result, the General Fund's fund balance increased from \$3,739,520 a year ago to \$3,902,937 at June 30, 2004.

### **Capital Asset and Debt Administration**

At the end of 2004, the City of Eastpointe had \$30.7 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The City of Eastpointe has invested significantly in roads within the major and local street system, sidewalks, and water and sewer lines since 1980. The value of infrastructure assets, net of depreciation contained in this report, is \$23.2 million for fiscal year 2004. Included in the infrastructure assets is \$11.7 million for infrastructure construction in progress for the Lake St. Clair Clean Water Initiative.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information).

### **Economic Factors and Next Year's Budgets and Rates**

The City of Eastpointe's budget for next year calls for a minimal increase of 2.3 percent on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the City needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year and are likely to decrease again due to State cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in other revenues, including charges for services and interest on investments, continue to have a major impact on the City's ability to balance its budget.

# **City of Eastpointe, Michigan**

## **Management's Discussion and Analysis (Continued)**

Despite these concerns, the City will continue to operate as efficiently as possible in the next fiscal year. Various personnel positions will remain vacant, with reduced departmental budgets and minimal capital spending budgeted for the next year. We expect continued annual increases in health care costs of 8 percent to 10 percent each year. Additionally, the cost of funding retiree health care will increase proportionately. The City's pension system, while fully funded, is anticipating increased contributions due to negotiated changes in benefits, and an increase in stock market and investment returns will help to offset any future required contribution.

The City purchases its water from the City of Detroit, which forecasts increases averaging 10 percent annually for the next five years. The City must pass on these increases to its customers through its water rate. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year. Costs include the purchase of water from Detroit, disposal and treatment of sewage, personnel and operating costs, and needed system improvements. The water rates will have to increase somewhat in 2005 as costs are passed on to the City. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase. This information will also be presented to the public during the City's budgeting process.

### **Contacting the City of Eastpointe's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at city hall.

# City of Eastpointe, Michigan

## Statement of Net Assets (Deficit) June 30, 2004

|  | Primary Government   |                      |                      | Component           |
|--|----------------------|----------------------|----------------------|---------------------|
|  | Governmental         | Business-type        |                      | Unit                |
|  | Activities           | Activities           | Total                |                     |
| <b>Assets</b>  |                      |                      |                      |                     |
| Cash and cash equivalents (Note 3)                             | \$ 6,466,824         | \$ 6,225,087         | \$ 12,691,911        | \$ 114,943          |
| Receivables:   |                      |                      |                      |                     |
| Taxes  | 102,633              | -                    | 102,633              | -                   |
| Special assessments  | 222,741              | -                    | 222,741              | -                   |
| Accounts - Net of allowance for doubtful accounts of \$270,719 | 682,987              | 4,108,582            | 4,791,569            | 625                 |
| Interest   | 3,996                | -                    | 3,996                | -                   |
| Due from other governmental units                              | 2,092,713            | -                    | 2,092,713            | -                   |
| Inventories  | -                    | 21,226               | 21,226               | -                   |
| Prepaid costs and other assets                                 | 6,452                | -                    | 6,452                | 16,242              |
| Investments in joint ventures (Note 11):                       |                      |                      |                      |                     |
| Southeast Macomb Sanitary District                             | -                    | 3,331,070            | 3,331,070            | -                   |
| South Macomb Disposal Authority                                | 373,230              | -                    | 373,230              | -                   |
| Capital assets (Note 4):                                       |                      |                      |                      |                     |
| Nondepreciable capital assets                                  | 13,151,906           | -                    | 13,151,906           | -                   |
| Depreciable capital assets                                     | 9,733,044            | 7,863,108            | 17,596,152           | -                   |
| Total assets   | 32,836,526           | 21,549,073           | 54,385,599           | 131,810             |
| <b>Liabilities</b>   |                      |                      |                      |                     |
| Accounts payable   | 410,861              | 942,122              | 1,352,983            | 5,196               |
| Accrued and other liabilities                                  | 794,800              | 91,893               | 886,693              | 9,863               |
| Noncurrent liabilities (Note 6):                               |                      |                      |                      |                     |
| Due within one year  | 659,575              | -                    | 659,575              | 70,000              |
| Due in more than one year                                      | 16,451,980           | 36,718               | 16,488,698           | 505,000             |
| Total liabilities  | 18,317,216           | 1,070,733            | 19,387,949           | 590,059             |
| <b>Net Assets (Deficit)</b>                                    |                      |                      |                      |                     |
| Invested in capital assets - Net of related debt               | 7,701,912            | 7,863,108            | 15,565,020           | -                   |
| Restricted:  |                      |                      |                      |                     |
| Public safety  | 222,552              | -                    | 222,552              | -                   |
| Sanitation   | 655,090              | -                    | 655,090              | -                   |
| Construction projects  | 455,215              | -                    | 455,215              | -                   |
| Streets and highways   | 2,399,263            | -                    | 2,399,263            | -                   |
| Debt service   | 132,028              | -                    | 132,028              | -                   |
| Unrestricted   | 2,953,250            | 12,615,232           | 15,568,482           | (458,249)           |
| Total net assets (deficit)                                     | <u>\$ 14,519,310</u> | <u>\$ 20,478,340</u> | <u>\$ 34,997,650</u> | <u>\$ (458,249)</u> |

# City of Eastpointe, Michigan

|  |                             | Program Revenues            |                            |                          |
|--|-----------------------------|-----------------------------|----------------------------|--------------------------|
|  |                             | Charges for                 | Operating                  | Capital                  |
|  | Expenses                    | Services                    | Grants and Contributions   | Grants and Contributions |
| <b>Functions/Programs</b>  |                             |                             |                            |                          |
| Primary government:  |                             |                             |                            |                          |
| Governmental activities:   |                             |                             |                            |                          |
| General government   | \$ 6,873,891                | \$ 2,294,207                | \$ 129,914                 | \$ -                     |
| Public safety  | 9,865,439                   | 944,609                     | 163,726                    | 100                      |
| Public works   | 4,230,829                   | 139,845                     | 2,078,449                  | 789,945                  |
| Recreation and culture   | 2,963,628                   | 549,975                     | 30,236                     | -                        |
| Interest on long-term debt   | 331,801                     | -                           | -                          | -                        |
| Total governmental activities  | 24,265,588                  | 3,928,636                   | 2,402,325                  | 790,045                  |
| Business-type activities - Water and sewer                             | 6,665,721                   | 8,854,072                   | -                          | -                        |
| Total primary government   | <u><b>\$ 30,931,309</b></u> | <u><b>\$ 12,782,708</b></u> | <u><b>\$ 2,402,325</b></u> | <u><b>\$ 790,045</b></u> |
| Component unit - Downtown Development Authority:                       |                             |                             |                            |                          |
| Community enrichment and development                                   | \$ 89,303                   | \$ 2,241                    | \$ 200                     | \$ -                     |
| Interest on long-term debt   | 44,550                      | -                           | -                          | -                        |
| Total component units  | <u><b>\$ 133,853</b></u>    | <u><b>\$ 2,241</b></u>      | <u><b>\$ 200</b></u>       | <u><b>\$ -</b></u>       |
| General revenues:  |                             |                             |                            |                          |
| Property taxes   |                             |                             |                            |                          |
| State-shared revenues  |                             |                             |                            |                          |
| Interest   |                             |                             |                            |                          |
| Loss on sale of capital assets   |                             |                             |                            |                          |
| Cable fees and other   |                             |                             |                            |                          |
| Transfers  |                             |                             |                            |                          |
| Total general revenues and transfers                                   |                             |                             |                            |                          |
| <b>Change in Net Assets</b>  |                             |                             |                            |                          |
| <b>Net Assets (Deficit) - Beginning of year - As restated (Note 1)</b> |                             |                             |                            |                          |
| <b>Net Assets (Deficit) - End of year</b>                              |                             |                             |                            |                          |

**Statement of Activities**  
**Year Ended June 30, 2004**

| Net (Expense) Revenue and Changes in Net Assets |                             |                      |                     |
|---|-----------------------------|----------------------|---------------------|
| Primary Government                              |                             |                      | Component<br>Unit   |
| Governmental<br>Activities                      | Business-type<br>Activities | Total                |                     |
| \$ (4,449,770)                                  | \$ -                        | \$ (4,449,770)       | \$ -                |
| (8,757,004)                                     | -                           | (8,757,004)          | -                   |
| (1,222,590)                                     | -                           | (1,222,590)          | -                   |
| (2,383,417)                                     | -                           | (2,383,417)          | -                   |
| (331,801)                                       | -                           | (331,801)            | -                   |
| (17,144,582)                                    | -                           | (17,144,582)         | -                   |
| -   | 2,188,351                   | 2,188,351            | -                   |
| (17,144,582)                                    | 2,188,351                   | (14,956,231)         | -                   |
| -   | -                           | -                    | (86,862)            |
| -   | -                           | -                    | (44,550)            |
| -   | -                           | -                    | (131,412)           |
| 12,176,378                                      | -                           | 12,176,378           | 183,628             |
| 3,930,260                                       | -                           | 3,930,260            | -                   |
| 146,133   | 87,937                      | 234,070              | 2,148               |
| (125,170)                                       | -                           | (125,170)            | -                   |
| 283,890   | 283,339                     | 567,229              | -                   |
| 1,092,523                                       | (1,092,523)                 | -                    | -                   |
| 17,504,014                                      | (721,247)                   | 16,782,767           | 185,776             |
| 359,432   | 1,467,104                   | 1,826,536            | 54,364              |
| 14,159,878                                      | 19,011,236                  | 33,171,114           | (512,613)           |
| <b>\$ 14,519,310</b>                            | <b>\$ 20,478,340</b>        | <b>\$ 34,997,650</b> | <b>\$ (458,249)</b> |

# City of Eastpointe, Michigan

|  | Major Special Revenue Funds |                   |                                     |                     |                    |
|--|-----------------------------|-------------------|-------------------------------------|---------------------|--------------------|
|  | General Fund                | Fire Fund         | Garbage and Rubbish Collection Fund | Major Streets Fund  | Local Streets Fund |
| <b>Assets</b>  |                             |                   |                                     |                     |                    |
| Cash and cash equivalents (Note 3)                             | \$ 2,400,778                | \$ 133,096        | \$ 798,719                          | \$ 1,296,632        | \$ 801,005         |
| Receivables:   |                             |                   |                                     |                     |                    |
| Taxes  | 102,633                     | -                 | -                                   | -                   | -                  |
| Special assessments  | -                           | -                 | -                                   | -                   | -                  |
| Accounts - Net of allowance for doubtful accounts of \$270,719 | 539,773                     | 139,058           | 4,156                               | -                   | -                  |
| Interest   | 3,996                       | -                 | -                                   | -                   | -                  |
| Prepaid expenses   | 6,452                       | -                 | -                                   | -                   | -                  |
| Due from other funds (Note 5)                                  | 2,420                       | -                 | -                                   | -                   | -                  |
| Due from other governmental units                              | 1,713,106                   | 135               | -                                   | 237,726             | 93,778             |
| <b>Total assets</b>  | <b>\$ 4,769,158</b>         | <b>\$ 272,289</b> | <b>\$ 802,875</b>                   | <b>\$ 1,534,358</b> | <b>\$ 894,783</b>  |
| <b>Liabilities and Fund Balances</b>                           |                             |                   |                                     |                     |                    |
| <b>Liabilities</b>   |                             |                   |                                     |                     |                    |
| Accounts payable   | \$ 166,332                  | \$ 17,938         | \$ 147,785                          | \$ 8,255            | \$ 1,236           |
| Accrued and other liabilities                                  | 516,879                     | 114,724           | -                                   | 10,482              | 9,905              |
| Due to other funds   | -                           | -                 | -                                   | -                   | -                  |
| Deferred revenue   | 183,010                     | 78,354            | -                                   | -                   | -                  |
| <b>Total liabilities</b>                                       | <b>866,221</b>              | <b>211,016</b>    | <b>147,785</b>                      | <b>18,737</b>       | <b>11,141</b>      |
| <b>Fund Balances</b>   |                             |                   |                                     |                     |                    |
| Reserved for prepaid expenses                                  | 6,452                       | -                 | -                                   | -                   | -                  |
| Unreserved   | 3,896,485                   | 61,273            | 655,090                             | 1,515,621           | 883,642            |
| Unreserved, reported in:                                       |                             |                   |                                     |                     |                    |
| Special Revenue Funds  | -                           | -                 | -                                   | -                   | -                  |
| Debt Service Funds - Designated for debt service               | -                           | -                 | -                                   | -                   | -                  |
| Capital Projects Funds - Designated for capital improvements   | -                           | -                 | -                                   | -                   | -                  |
| <b>Total fund balances</b>                                     | <b>3,902,937</b>            | <b>61,273</b>     | <b>655,090</b>                      | <b>1,515,621</b>    | <b>883,642</b>     |
| <b>Total liabilities and fund balances</b>                     | <b>\$ 4,769,158</b>         | <b>\$ 272,289</b> | <b>\$ 802,875</b>                   | <b>\$ 1,534,358</b> | <b>\$ 894,783</b>  |



**Governmental Funds  
Balance Sheet  
June 30, 2004**

Major Capital Projects Funds

| Capital<br>Improvement<br>Fund | SEMSD<br>Clean Water<br>Initiative<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------|--|--|--------------------------------|
| \$ 171,527                     | \$ -                                       | \$ 865,066                                 | \$ 6,466,823                   |
| -                              | -  | -  | 102,633                        |
| 222,741                        | -  | -  | 222,741                        |
| -                              | -  | -  | 682,987                        |
| -                              | -  | -  | 3,996                          |
| -                              | -  | -  | 6,452                          |
| -                              | -  | -  | 2,420                          |
| -                              | -  | 47,968                                     | 2,092,713                      |
| <b>\$ 394,268</b>              | <b>\$ -</b>                                | <b>\$ 913,034</b>                          | <b>\$ 9,580,765</b>            |
|                                |  |  |                                |
| \$ -                           | \$ -                                       | \$ 69,314                                  | \$ 410,860                     |
| -                              | -  | 24,084                                     | 676,074                        |
| -                              | -  | 2,420                                      | 2,420                          |
| 182,448                        | -  | -  | 443,812                        |
| 182,448                        | -  | 95,818                                     | 1,533,166                      |
| -                              | -  | -  | 6,452                          |
| 211,820                        | -  | -  | 7,223,931                      |
| -                              | -  | 135,515                                    | 135,515                        |
| -                              | -  | 309,686                                    | 309,686                        |
| -                              | -  | 372,015                                    | 372,015                        |
| 211,820                        | -  | 817,216                                    | 8,047,599                      |
| <b>\$ 394,268</b>              | <b>\$ -</b>                                | <b>\$ 913,034</b>                          | <b>\$ 9,580,765</b>            |

# City of Eastpointe, Michigan

## **Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets (Deficit) June 30, 2004**

**Total Fund Balances for Governmental Funds** \$ 8,047,599

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 22,884,950

Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures 261,364

Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures 182,448

Long-term bonds payable are not due and payable in the current period and are not reported in the funds (15,183,038)

Investment in joint venture is not included as an asset in the governmental funds 373,230

Long-term portion of compensated absences is not due and payable in the current period and is not reported in the funds (1,179,804)

Net pension obligation in governmental activities is not reported in the funds (610,452)

Accrued interest payable is not reported in the funds (118,726)

Long-term portion of uninsured losses is not reported in the funds (138,261)

**Net Assets of Governmental Activities** \$ 14,519,310

# City of Eastpointe, Michigan

|  | Major Special Revenue Funds |                  |                                     |                     |                    |
|--|-----------------------------|------------------|-------------------------------------|---------------------|--------------------|
|  | General Fund                | Fire Fund        | Garbage and Rubbish Collection Fund | Major Streets Fund  | Local Streets Fund |
| <b>Revenue</b>                                     |                             |                  |                                     |                     |                    |
| Property taxes                                     | \$ 8,512,757                | \$ 636,852       | \$ 1,650,941                        | \$ -                | \$ -               |
| Special assessments                                | -                           | -                | -                                   | -                   | -                  |
| Licenses and permits                               | 679,000                     | -                | -                                   | -                   | -                  |
| Intergovernmental:                                 |                             |                  |                                     |                     |                    |
| Federal sources                                    | -                           | 69,164           | -                                   | -                   | -                  |
| State sources                                      | 3,990,568                   | -                | -                                   | 1,526,656           | 551,793            |
| Charges for services                               | 361,095                     | 346,344          | -                                   | -                   | -                  |
| Rental income                                      | 143,523                     | -                | -                                   | -                   | -                  |
| Fines and forfeits                                 | 1,870,312                   | -                | -                                   | -                   | -                  |
| Interest income                                    | 96,342                      | 1,284            | 12,381                              | 12,527              | 9,851              |
| Other  | 423,843                     | 2,325            | -                                   | -                   | 5,501              |
| Total revenue                                      | 16,077,440                  | 1,055,969        | 1,663,322                           | 1,539,183           | 567,145            |
| <b>Expenditures</b>                                |                             |                  |                                     |                     |                    |
| Current:   |                             |                  |                                     |                     |                    |
| General government                                 | 5,689,348                   | -                | -                                   | -                   | -                  |
| Public safety                                      | 6,167,167                   | 3,002,813        | -                                   | -                   | -                  |
| Public works                                       | 366,448                     | -                | 1,479,750                           | 610,949             | 707,072            |
| Recreation and culture                             | 1,500,952                   | -                | -                                   | -                   | -                  |
| Capital outlay                                     | -                           | -                | -                                   | -                   | -                  |
| Construction and development                       | -                           | -                | -                                   | -                   | -                  |
| Debt service:                                      |                             |                  |                                     |                     |                    |
| Principal  | -                           | -                | -                                   | -                   | -                  |
| Interest   | -                           | -                | -                                   | -                   | -                  |
| Total expenditures                                 | 13,723,915                  | 3,002,813        | 1,479,750                           | 610,949             | 707,072            |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 2,353,525                   | (1,946,844)      | 183,572                             | 928,234             | (139,927)          |
| <b>Other Financing Sources (Uses)</b>              |                             |                  |                                     |                     |                    |
| Transfers in                                       | 562,760                     | 2,317,549        | -                                   | -                   | 182,693            |
| Transfers out                                      | (2,752,868)                 | (456,173)        | -                                   | (198,193)           | (10,200)           |
| City's share of county-issued bond obligations     | -                           | -                | -                                   | -                   | -                  |
| Total other financing sources (uses)               | (2,190,108)                 | 1,861,376        | -                                   | (198,193)           | 172,493            |
| <b>Net Change in Fund Balances</b>                 | 163,417                     | (85,468)         | 183,572                             | 730,041             | 32,566             |
| <b>Fund Balances - Beginning of year</b>           | 3,739,520                   | 146,741          | 471,518                             | 785,580             | 851,076            |
| <b>Fund Balances - End of year</b>                 | <u>\$ 3,902,937</u>         | <u>\$ 61,273</u> | <u>\$ 655,090</u>                   | <u>\$ 1,515,621</u> | <u>\$ 883,642</u>  |

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2004**

| Major Capital Projects Funds   |                                   |   |                                |
|--------------------------------|-----------------------------------|---|--------------------------------|
| SEMSED                         |                                   |   |                                |
| Capital<br>Improvement<br>Fund | Clean Water<br>Initiative<br>Fund | Other Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
| \$ -                           | \$ -                              | \$ 1,375,828                            | \$ 12,176,378                  |
| 507,391                        | -                                 | -                                       | 507,391                        |
| -                              | -                                 | -                                       | 679,000                        |
| -                              | -                                 | 91,462                                  | 160,626                        |
| -                              | -                                 | 29,686                                  | 6,098,703                      |
| -                              | -                                 | 3,366                                   | 710,805                        |
| -                              | -                                 | 136,521                                 | 280,044                        |
| -                              | -                                 | 153,165                                 | 2,023,477                      |
| 2,862                          | -                                 | 10,886                                  | 146,133                        |
| 1,852                          | -                                 | 29,450                                  | 462,971                        |
| 512,105                        | -                                 | 1,830,364                               | 23,245,528                     |
| -                              | -                                 | -                                       | 5,689,348                      |
| -                              | -                                 | 230,979                                 | 9,400,959                      |
| 343,526                        | -                                 | 739,063                                 | 4,246,808                      |
| -                              | -                                 | 740,559                                 | 2,241,511                      |
| -                              | -                                 | 630,559                                 | 630,559                        |
| -                              | 1,777,240                         | -                                       | 1,777,240                      |
| -                              | -                                 | 572,224                                 | 572,224                        |
| -                              | -                                 | 487,588                                 | 487,588                        |
| 343,526                        | 1,777,240                         | 3,400,972                               | 25,046,237                     |
| 168,579                        | (1,777,240)                       | (1,570,608)                             | (1,800,709)                    |
| -                              | -                                 | 1,599,015                               | 4,662,017                      |
| (132,894)                      | -                                 | (19,166)                                | (3,569,494)                    |
| -                              | 1,777,240                         | -                                       | 1,777,240                      |
| (132,894)                      | 1,777,240                         | 1,579,849                               | 2,869,763                      |
| 35,685                         | -                                 | 9,241                                   | 1,069,054                      |
| 176,135                        | -                                 | 807,975                                 | 6,978,545                      |
| <u>\$ 211,820</u>              | <u>\$ -</u>                       | <u>\$ 817,216</u>                       | <u>\$ 8,047,599</u>            |

# City of Eastpointe, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ 1,069,054

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 2,861,164

Depreciation is recorded as an expense in the statement of activities but not in the governmental funds (2,181,403)

Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end 64,057

Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) 150,310

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 572,224

Bond proceeds are not reported as financing sources on the statement of activities (1,757,592)

Change in investment in joint venture is not recorded in the governmental funds 14,606

Interest expense is reported in the statement of activities when a liability is incurred; they are reported in the governmental funds only when payment is due 155,787

Change in accumulated employee sick and vacation pay, as well as estimated general liability and workers' compensation claims, is recorded when earned in the statement of activities 320,194

Change in net pension obligation is recorded when earned in the statement of activities (610,452)

In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold (298,517)

**Change in Net Assets of Governmental Activities** \$ 359,432

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Net Assets June 30, 2004

|  | Water and<br>Sewer Fund     |
|--|-----------------------------|
| <b>Assets</b>  |                             |
| Current assets:  |                             |
| Cash and cash equivalents (Note 3)                                   | \$ 6,225,087                |
| Customer receivables   | 4,108,582                   |
| Inventories  | <u>21,226</u>               |
| Total current assets   | 10,354,895                  |
| Noncurrent assets:   |                             |
| Investment in Southeast Macomb Sanitary District (Note 11)           | 3,331,070                   |
| Capital assets - Net (Note 4)  | <u>7,863,108</u>            |
| Total noncurrent assets  | <u>11,194,178</u>           |
| Total assets   | 21,549,073                  |
| <b>Liabilities</b>   |                             |
| Current liabilities:   |                             |
| Accounts payable   | 942,122                     |
| Accrued and other liabilities  | <u>91,893</u>               |
| Total current liabilities  | 1,034,015                   |
| Noncurrent liabilities - Provision for compensated absences (Note 6) | <u>36,718</u>               |
| Total liabilities  | <u>1,070,733</u>            |
| <b>Net Assets</b>  |                             |
| Invested in capital assets   | 7,863,108                   |
| Unrestricted   | <u>12,615,232</u>           |
| Total net assets   | <u><u>\$ 20,478,340</u></u> |

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

|  | Water and<br>Sewer Fund |
|--|-------------------------|
| <b>Operating Revenue</b>                                     |                         |
| Water sales  | \$ 2,435,695            |
| Sewage disposal  | 4,086,851               |
| Penalties  | 285,307                 |
| Charges for services   | 1,932,605               |
| Other  | 396,953                 |
| Total operating revenue                                      | 9,137,411               |
| <b>Operating Expenses</b>                                    |                         |
| Water purchases  | 883,935                 |
| Sewage treatment   | 3,664,240               |
| Maintenance and operation                                    | 389,117                 |
| General and administration                                   | 1,196,426               |
| Other  | 9,639                   |
| Depreciation   | 522,364                 |
| Total operating expenses                                     | 6,665,721               |
| <b>Operating Income</b>                                      | 2,471,690               |
| <b>Nonoperating Income</b> - Interest income                 | 87,937                  |
| <b>Income</b> - Before transfers to other funds              | 2,559,627               |
| <b>Transfers to Other Funds</b>                              | (1,092,523)             |
| <b>Change in Net Assets</b>                                  | 1,467,104               |
| <b>Net Assets</b> - Beginning of year - As restated (Note 1) | 19,011,236              |
| <b>Net Assets</b> - End of year                              | <b>\$ 20,478,340</b>    |

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended June 30, 2004

|  | Water and<br>Sewer Fund    |
|--|----------------------------|
| <b>Cash Flows from Operating Activities</b>  |                            |
| Receipts from customers  | \$ 8,231,633               |
| Payments to suppliers  | (5,557,679)                |
| Payments to employees  | (418,840)                  |
| Other receipts   | <u>283,339</u>             |
| Net cash provided by operating activities  | 2,538,453                  |
| <b>Cash Flows from Noncapital Financing Activities - Operating transfers out</b>             | (1,092,523)                |
| <b>Cash Flows from Capital and Related Financing Activities - Purchase of capital assets</b> | (88,840)                   |
| <b>Cash Flows from Investing Activities - Interest received on investments</b>               | <u>87,937</u>              |
| <b>Net Increase in Cash and Cash Equivalents</b>   | 1,445,027                  |
| <b>Cash and Cash Equivalents - Beginning of year</b>   | <u>4,780,060</u>           |
| <b>Cash and Cash Equivalents - End of year</b>   | <u><u>\$ 6,225,087</u></u> |
| <b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>              |                            |
| Operating income   | \$ 2,471,690               |
| Adjustments to reconcile operating income to net cash from operating activities:             |                            |
| Depreciation   | 522,364                    |
| Changes in assets and liabilities:   |                            |
| Receivables  | (508,826)                  |
| Inventories  | 529                        |
| Investment in joint venture  | (113,614)                  |
| Accounts payable   | 172,064                    |
| Accrued and other liabilities  | <u>(5,754)</u>             |
| Net cash provided by operating activities  | <u><u>\$ 2,538,453</u></u> |

There were no noncash investing, capital, and financing activities during the year ended June 30, 2004.



# City of Eastpointe, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

|  | Pension<br>and Other<br>Employee<br>Benefit Trust<br>Funds | Agency Funds             |
|--|--|--------------------------|
| <b>Assets</b>  |  |                          |
| Cash and cash equivalents (Note 3)   | \$ 12,958,027  | \$ 123,704               |
| Investments (Note 3)   | 36,828,983   | -                        |
| Total assets   | 49,787,010   | <u><u>\$ 123,704</u></u> |
| <b>Liabilities</b>   |  |                          |
| Accounts payable   | 337,775  | \$ -                     |
| Accrued and other liabilities  | -  | 123,704                  |
| Total liabilities  | <u>337,775</u>   | <u><u>\$ 123,704</u></u> |
| <b>Net Assets</b> - Held in trust for pension and other<br>employee benefits | <u><u>\$ 49,449,235</u></u>                                |                          |

# City of Eastpointe, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2004**

### **Additions**

Investment income:

|   |                  |
|---|------------------|
| Interest and dividends                      | \$ 1,252,828     |
| Net adjustment to fair value of investments | 3,900,186        |
| Less investment expenses                    | <u>(300,879)</u> |

Net investment income 4,852,135

Employer contributions 1,631,396

Total additions 6,483,531

### **Deductions**

|                           |              |
|---------------------------|--------------|
| Benefit payments          | 2,917,820    |
| Health insurance premiums | 1,570,270    |
| Administrative expenses   | <u>7,875</u> |

Total deductions 4,495,965

**Change in Net Assets** 1,987,566

**Net Assets - Beginning of year** 47,461,669

**Net Assets - End of year** \$ 49,449,235

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Eastpointe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Eastpointe, Michigan:

#### **Reporting Entity**

The City of Eastpointe, Michigan operates with the Council-Manager form of government. It is governed by a City Council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager and the finance director, each of whom reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except for those affairs that are the responsibility of other appointed officials. The finance director is responsible for the administration of the financial affairs of the City, including keeping and supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

#### **Blended Component Units**

The Building Authority of Eastpointe, an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor Debt Service and Capital Projects Funds.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Discretely Presented Component Unit**

The City of Eastpointe Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements for the Downtown Development Authority can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City has excluded the Economic Development Corporation since it is inactive. The City has also excluded the Housing Commission from this report since the City does not have the ability to impose its will.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Fire Fund** - The Fire Fund accounts for fire safety and protection services/activities within the City. Funding is provided primarily through a local property tax levy and a transfer from the General Fund.

**Garbage and Rubbish Collection Fund** - The Garbage and Rubbish Collection Fund accounts for garbage and rubbish collection services/activities within the City. Funding is provided primarily through a local property tax levy.

**Major Streets Fund** - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.

**Local Streets Fund** - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes.

**Capital Improvement Fund** - The Capital Improvement Fund accounts for special assessment capital projects. Funding is provided primarily through the collection of special assessment district levies.

**SEMSD Clean Water Initiative Fund** - The SEMSD Clean Water Initiative Fund accounts for the City's share of expenditures associated with the Lake St. Clair Clean Water Initiative project. Funding is provided primarily through bond issues.

The City reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.

Additionally, the City reports the following fund types:

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Agency Funds** - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property Tax Revenue** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2003 tax is levied and collectible on July 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$657 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.7442 mills for operating purposes, 2.5488 mills for refuse collection, .9282 mills for library services, .9830 mills for fire/ambulance services, and 1.196 mills for debt service. This resulted in \$8.2 million for operating, \$1.6 million for refuse collection, \$600,000 for library services, \$635,000 for fire/ambulance services, and \$773,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds" Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31. These taxes are billed on July 1 of the following year and become a lien on December 1. These taxes are due September 1 with the final collection date of February 28 before they are added to the county tax rolls.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

|                                      |              |
|--------------------------------------|--------------|
| Infrastructure                       | 40 years     |
| Water and sewer distribution systems | 40 years     |
| Buildings and building improvements  | 20 years     |
| Machinery and equipment              | 5 to 7 years |



### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Correction of a Prior Period** - The Water and Sewer Fund net assets as of June 30, 2003 have been restated as follows:

|   |                      |
|---|----------------------|
| Water and sewer net assets - As previously reported                   | \$ 18,927,945        |
| Remove assets that were transferred to other funds in<br>a prior year | (418,488)            |
| Adjustment of accumulated depreciation                                | <u>501,779</u>       |
| Water and sewer net assets - June 30, 2003 - As restated              | <u>\$ 19,011,236</u> |

### Note 2 - Stewardship, Compliance, and Accountability

#### Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplementary information. A comparison of actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

|                                      |    |                              |
|--------------------------------------|----|------------------------------|
| Cumulative shortfall - July 1, 2003  |    | \$ (1,217,743)               |
| Building permit revenue              |    | 252,487                      |
| Related expenditures:                |    |                              |
| Direct costs                         | \$ | 553,506                      |
| Estimated indirect costs             |    | <u>83,025</u>                |
| Total construction code expenditures |    | <u>636,531</u>               |
| Excess of expenditures over revenues |    | <u>(384,044)</u>             |
| Cumulative shortfall - June 30, 2004 |    | <u><u>\$ (1,601,787)</u></u> |

### Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain State and local government obligations, and certain other specified investment vehicles.

The City of Eastpointe, Michigan's deposits and investment policies are in accordance with statutory authority.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 3 - Deposits and Investments (Continued)

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

|                           | Governmental<br>Activities | Business-type<br>Activities | Fiduciary -<br>Trust and<br>Agency Funds | Total Primary<br>Government | Component<br>Units |
|---------------------------|----------------------------|-----------------------------|--|-----------------------------|--------------------|
| Cash and cash equivalents | \$ 6,466,824               | \$ 6,225,087                | \$ 13,081,731                            | \$ 25,773,642               | \$ 114,943         |
| Investments               | -                          | -                           | 36,828,983                               | 36,828,983                  | -                  |
| Total                     | <u>\$ 6,466,824</u>        | <u>\$ 6,225,087</u>         | <u>\$ 49,910,714</u>                     | <u>\$ 62,602,625</u>        | <u>\$ 114,943</u>  |

The breakdown between deposits and investments for the City is as follows:

|  | Primary<br>Government | Component<br>Units |
|--|-----------------------|--------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 2,083,522          | \$ 114,943         |
| Investments in securities, mutual funds, and similar vehicles                    | 60,503,903            | -                  |
| Petty cash or cash on hand   | <u>15,200</u>         | <u>-</u>           |
| Total  | <u>\$ 62,602,625</u>  | <u>\$ 114,943</u>  |

### Deposits

The City's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$3,066,000. Of that amount, approximately \$379,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

### Note 3 - Deposits and Investments (Continued)

#### Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category I includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

At year end, the City's investment balances were categorized as follows:

|  | Category    |             |                      | Reported<br>Amount<br>(Fair Value) |
|--|-------------|-------------|----------------------|------------------------------------|
|  | I           | 2           | 3                    |                                    |
| Primary government:                        |             |             |                      |                                    |
| U.S. government securities                 | \$ -        | \$ -        | \$ 4,034,063         | \$ 4,034,063                       |
| Corporate bonds and other securities       | -           | -           | 4,160,430            | 4,160,430                          |
| Corporate stock                            | -           | -           | 28,634,492           | 28,634,492                         |
| Subtotal                                   | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,828,985</u> | 36,828,985                         |
| Investments not subject to categorization: |             |             |                      |                                    |
| Bank investment pool funds                 |             |             |                      | 1,760,347                          |
| Mutual funds                               |             |             |                      | 21,914,571                         |
| Total primary government                   |             |             |                      | <u>\$ 60,503,903</u>               |

### **Note 3 - Deposits and Investments (Continued)**

The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City believes that the investments comply with the investment authority noted above. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act and the fair value of the position in the pool is the same as the value of the pool shares.

Included in the fiduciary fund's investments at June 30, 2004 are the following:

- Approximately \$1,732,000 of securities issued by the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC). These investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

#### **Component Units**

The cash and cash equivalents of the City's component units consist of bank deposits of \$114,943. Of that amount, \$100,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

|   | Balance<br>July 1, 2003 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2004 |
|---|-------------------------|--------------|------------------------------|--------------------------|
| <b>Governmental activities:</b>         |                         |              |                              |                          |
| Capital assets not being depreciated:   |                         |              |                              |                          |
| Land                                    | \$ 1,591,238            | \$ -         | \$ 125,197                   | \$ 1,466,041             |
| Infrastructure construction in progress | 9,928,271               | 1,757,594    | -                            | 11,685,865               |
| Subtotal                                | 11,519,509              | 1,757,594    | 125,197                      | 13,151,906               |
| Capital assets being depreciated:       |                         |              |                              |                          |
| Infrastructure:                         |                         |              |                              |                          |
| Roads                                   | 12,156,671              | 25,658       | -                            | 12,182,329               |
| Sidewalks                               | 5,120,792               | 341,382      | -                            | 5,462,174                |
| Buildings and building improvements     | 11,929,131              | 9,328        | 5,615                        | 11,932,844               |
| Machinery and equipment                 | 5,026,600               | 727,202      | 371,660                      | 5,382,142                |
| Subtotal                                | 34,233,194              | 1,103,570    | 377,275                      | 34,959,489               |
| Accumulated depreciation:               |                         |              |                              |                          |
| Infrastructure:                         |                         |              |                              |                          |
| Roads                                   | 11,254,529              | 490,454      | -                            | 11,744,983               |
| Sidewalks                               | 2,048,137               | 211,183      | -                            | 2,259,320                |
| Buildings and building improvements     | 6,914,901               | 875,350      | -                            | 7,790,251                |
| Machinery and equipment                 | 3,031,430               | 604,416      | 203,955                      | 3,431,891                |
| Subtotal                                | 23,248,997              | 2,181,403    | 203,955                      | 25,226,445               |
| Net capital assets being depreciated    | 10,984,197              | (1,077,833)  | 173,320                      | 9,733,044                |
| Net capital assets                      | \$ 22,503,706           | \$ 679,761   | \$ 298,517                   | \$ 22,884,950            |
| <b>Business-type activities:</b>        |                         |              |                              |                          |
| Capital assets being depreciated:       |                         |              |                              |                          |
| Buildings                               | \$ 311,251              | \$ -         | \$ -                         | \$ 311,251               |
| Utility system                          | 16,983,101              | 80,855       | -                            | 17,063,956               |
| Machinery and equipment                 | 1,088,970               | 7,985        | 38,900                       | 1,058,055                |
| Subtotal                                | 18,383,322              | 88,840       | 38,900                       | 18,433,262               |
| Accumulated depreciation:               |                         |              |                              |                          |
| Buildings                               | 234,700                 | 15,563       | -                            | 250,263                  |
| Utility system                          | 8,901,657               | 426,598      | -                            | 9,328,255                |
| Machinery and equipment                 | 950,333                 | 80,203       | 38,900                       | 991,636                  |
| Subtotal                                | 10,086,690              | 522,364      | 38,900                       | 10,570,154               |
| Net capital assets                      | \$ 8,296,632            | \$ (433,524) | \$ -                         | \$ 7,863,108             |



# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

|                        |                |
|------------------------|----------------|
| General government     | \$ 722,510     |
| Public safety          | 468,820        |
| Public works           | 113,701        |
| Judicial               | 124,151        |
| Recreation and culture | <u>752,221</u> |

|                               |                     |
|-------------------------------|---------------------|
| Total governmental activities | <u>\$ 2,181,403</u> |
|-------------------------------|---------------------|

|  |                   |
|--|-------------------|
| Business-type activities - Water and sewer | <u>\$ 522,364</u> |
|--|-------------------|

**Construction Commitments** - The City has an active construction project at year end for the Lake St. Clair Clean Water Initiative Construction project administered by the Macomb County Drain Commission. At year end, the City's commitments with contractors are as follows:

|   | <u>Spent to Date</u> | <u>Remaining<br/>Commitment</u> |
|---|----------------------|---------------------------------|
| SEMSD Clean Water Initiative Construction project | <u>\$ 11,820,681</u> | <u>\$ 1,552,362</u>             |

The remaining project commitment is expected to be funded through County Drain obligations.

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| <u>Receivable Fund</u>                    | <u>Payable Fund</u>         | <u>Amount</u>   |
|---|-----------------------------|-----------------|
| Due to/from other funds -<br>General Fund | Nonmajor governmental funds | <u>\$ 2,420</u> |

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

| Fund Transferred From    | Fund Transferred To         | Amount                     |
|--------------------------|-----------------------------|----------------------------|
| General Fund             | Fire Fund                   | \$ 2,317,549               |
|                          | Nonmajor governmental funds | <u>435,319</u>             |
|                          | Total General Fund          | 2,752,868                  |
| Fire Fund                | Nonmajor governmental funds | 456,173                    |
| Major Streets Fund       | General Fund                | 15,500                     |
|                          | Local Streets Fund          | <u>182,693</u>             |
|                          | Total Major Streets Fund    | 198,193                    |
| Local Streets Fund       | General Fund                | 10,200                     |
| Capital Improvement Fund | General Fund                | 132,894                    |
| Water and Sewer Fund     | General Fund                | 385,000                    |
|                          | Nonmajor governmental funds | <u>707,523</u>             |
|                          | Total Water and Sewer Fund  | <u>1,092,523</u>           |
|                          | Total                       | <u><u>\$ 4,642,851</u></u> |

Transfers provided funding for capital projects, capital acquisitions, and debt service.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

|  | Interest<br>Rate<br>Ranges | Principal<br>Maturity<br>Ranges | Beginning<br>Balance | Additions<br>(Reductions) | Ending Balance | Due Within<br>One Year |
|--|----------------------------|---------------------------------|----------------------|---------------------------|----------------|------------------------|
| Governmental activities:                     |                            |                                 |                      |                           |                |                        |
| General obligation bond:                     |                            |                                 |                      |                           |                |                        |
| Building Authority General Obligation Bonds: |                            |                                 |                      |                           |                |                        |
| Amount of issue - \$4,400,000                | 4.25% -                    | \$265,000 -                     |                      |                           |                |                        |
| Maturing through 2014                        | 4.70%                      | \$460,000                       | \$ 4,090,000         | \$ (235,000)              | \$ 3,855,000   | \$ 265,000             |
| County Drain Contract:                       |                            |                                 |                      |                           |                |                        |
| Lake St. Clair Clean Water Initiative:       |                            |                                 |                      |                           |                |                        |
| Amount of issue - \$11,328,038               | Various                    | \$147,454 -                     |                      |                           |                |                        |
| Maturing through 2030                        |                            | \$581,075                       | 9,907,657            | 1,420,381                 | 11,328,038     | 394,575                |
| Total bond obligations                       |                            |                                 | 13,997,657           | 1,185,381                 | 15,183,038     | 659,575                |
| Other long-term obligations:                 |                            |                                 |                      |                           |                |                        |
| Compensated absences                         |                            |                                 | 1,270,089            | (90,285)                  | 1,179,804      | -                      |
| Net pension obligation                       |                            |                                 | -                    | 610,452                   | 610,452        | -                      |
| Uninsured losses (Note 7)                    |                            |                                 | 368,180              | (229,919)                 | 138,261        | -                      |
| Total governmental activities                |                            |                                 | 15,635,926           | 1,475,629                 | 17,111,555     | 659,575                |
| Business-type activities - Water and Sewer   |                            |                                 |                      |                           |                |                        |
| Fund obligations - Compensated absences      |                            |                                 | 61,677               | (24,959)                  | 36,718         | -                      |
| Total  |                            |                                 | \$ 15,697,603        | \$ 1,450,670              | \$ 17,148,273  | \$ 659,575             |
| Component unit - 1992 Downtown Development   |                            |                                 |                      |                           |                |                        |
| Authority Bonds:                             |                            |                                 |                      |                           |                |                        |
| Amount of issue - \$995,000                  |                            | \$65,000 -                      |                      |                           |                |                        |
| Maturing through 2011                        | 6.00%                      | \$90,000                        | \$ 640,000           | \$ (65,000)               | \$ 575,000     | \$ 70,000              |

Annual debt service requirements to maturity for the above bond obligations are as follows:

| Year Ended<br>June 30 | Governmental Activities |              |               | Component Unit |            |            |
|-----------------------|-------------------------|--------------|---------------|----------------|------------|------------|
|                       | Principal               | Interest     | Total         | Principal      | Interest   | Total      |
| 2005                  | \$ 660,235              | \$ 505,747   | \$ 1,165,982  | \$ 70,000      | \$ 32,400  | \$ 102,400 |
| 2006                  | 722,410                 | 490,508      | 1,212,918     | 75,000         | 28,050     | 103,050    |
| 2007                  | 768,309                 | 465,893      | 1,234,202     | 85,000         | 23,250     | 108,250    |
| 2008                  | 808,272                 | 439,293      | 1,247,565     | 85,000         | 18,150     | 103,150    |
| 2009                  | 854,843                 | 410,873      | 1,265,716     | 85,000         | 13,050     | 98,050     |
| 2010-2014             | 4,760,229               | 1,561,452    | 6,321,681     | 175,000        | 10,650     | 185,650    |
| 2015-2019             | 2,905,375               | 867,557      | 3,772,932     | -              | -          | -          |
| 2020-2024             | 2,791,030               | 424,056      | 3,215,086     | -              | -          | -          |
| 2025-2029             | 737,270                 | 144,161      | 881,431       | -              | -          | -          |
| 2030-2033             | 175,065                 | 4,447        | 179,512       | -              | -          | -          |
| Total                 | \$ 15,183,038           | \$ 5,313,987 | \$ 20,497,025 | \$ 575,000     | \$ 125,550 | \$ 700,550 |

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

**Defeased Debt** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$3,720,000 of bonds outstanding are considered defeased.

### Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|                                | Unavailable       | Unearned    |
|--------------------------------|-------------------|-------------|
| Special assessments            | \$ 250,904        | \$ -        |
| Delinquent special assessments | 114,554           | -           |
| Ambulance billings             | 78,354            | -           |
| Total                          | <u>\$ 443,812</u> | <u>\$ -</u> |

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City of Eastpointe, Michigan.

### Note 8 - Risk Management (Continued)

The City is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

Changes in the estimated liability by category for the past two fiscal years were as follows:

|  | General Liability, Auto, and<br>Property |                   | Workers' Compensation |                  |
|--|--|-------------------|-----------------------|------------------|
|  | 2004                                     | 2003              | 2004                  | 2003             |
| Estimated liability - Beginning of year                      | \$ 358,047                               | \$ 521,172        | \$ 10,133             | \$ 23,833        |
| Estimated claims incurred,<br>including changes in estimates | (77,892)                                 | 86,875            | 138,710               | 172,507          |
| Claims payments  | (144,061)                                | (250,000)         | (146,676)             | (186,207)        |
| Estimated liability - End of year                            | <u>\$ 136,094</u>                        | <u>\$ 358,047</u> | <u>\$ 2,167</u>       | <u>\$ 10,133</u> |

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The City of Eastpointe Employees' Retirement System is the administrator of a single-employer public employees' retirement system, established pursuant to collective bargaining agreements that cover all full-time employees of the City. The system provides retirement and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 164 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 163 current active employees.

**Contributions** - Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Plan members are not required to contribute. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

### Note 9 - Defined Benefit Pension Plan (Continued)

**Annual Pension Costs** - For the year ended June 30, 2004, the City's annual pension cost was \$432,939 for the plan. The annual required contribution was \$432,939; however, the City made no contributions to the plan during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the individual entry age actuarial funding method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return; (b) projected salary increases of 4 percent to 7 percent per year; and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 15 years.

**Reserves** - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

|                                      |            |
|--------------------------------------|------------|
| Reserve for employees' contributions | \$ 417,726 |
| Reserve for retired benefit payments | 36,614,961 |

Three-year trend information as of June 30 follows:

| Year Ended<br>June 30 | Annual<br>Pension Cost<br>(APC) | Percentage<br>of APC<br>Contributed | Net Pension<br>Obligation |
|-----------------------|---------------------------------|-------------------------------------|---------------------------|
| 2002                  | \$ 10,978                       | \$ -                                | \$ 10,978                 |
| 2003                  | 174,184                         | -                                   | 185,162                   |
| 2004                  | 425,290                         | -                                   | 610,452                   |

### Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 154 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,570,000.

### Note 10 - Postemployment Benefits (Continued)

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 11 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage treatment to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture’s governing board, who then approves the annual budgets. The City’s equity interest of \$3,331,070 is recorded in the Water and Sewer Fund fund financial statements and within the business-type activities column in the statement of net assets (deficit).

Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture’s governing board, who then approves the annual budgets. The City’s equity interest in the Authority’s operating reserve of \$373,230 is recorded within the governmental activities column of the statement of activities. The Authority has reserves totaling approximately \$13.7 million that have been designated for self-insurance activities; the participating communities’ equity interest in the insurance reserves is not determinable. Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### **Note 12 - Employees' Death Benefit Fund**

The Employees' Death Benefit Fund was established by the City Ordinance on October 13, 1958 for the purpose of providing a death benefit for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2004. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.



## **Required Supplemental Information**

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# City of Eastpointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

|                                       | Original<br>Budget | Amended<br>Budget | Actual       | Variance with<br>Amended<br>Budget |
|---------------------------------------|--------------------|-------------------|--------------|------------------------------------|
| <b>Revenue</b>                        |                    |                   |              |                                    |
| Property taxes                        | \$ 8,548,805       | \$ 8,548,805      | \$ 8,512,757 | \$ (36,048)                        |
| Licenses and permits                  | 685,000            | 698,000           | 679,000      | (19,000)                           |
| State-shared revenues and grants      | 3,996,451          | 3,930,974         | 3,990,568    | 59,594                             |
| Charges for services                  | 297,500            | 362,500           | 361,095      | (1,405)                            |
| Rental income                         | 129,750            | 129,750           | 143,523      | 13,773                             |
| Fines and forfeits                    | 1,979,389          | 1,991,640         | 1,870,312    | (121,328)                          |
| Interest and rentals                  | 50,000             | 50,000            | 96,342       | 46,342                             |
| Other                                 | 159,390            | 244,390           | 423,843      | 179,453                            |
| Total revenue                         | 15,846,285         | 15,956,059        | 16,077,440   | 121,381                            |
| <b>Expenditures</b>                   |                    |                   |              |                                    |
| General government:                   |                    |                   |              |                                    |
| City council                          | 24,451             | 24,451            | 22,138       | 2,313                              |
| City manager                          | 451,261            | 451,261           | 424,044      | 27,217                             |
| City clerk and elections              | 189,768            | 189,768           | 163,995      | 25,773                             |
| Finance                               | 808,380            | 819,380           | 808,565      | 10,815                             |
| Assessor                              | 284,467            | 284,467           | 281,393      | 3,074                              |
| Law                                   | 175,235            | 192,235           | 185,628      | 6,607                              |
| Judicial - Municipal court            | 883,791            | 861,313           | 837,466      | 23,847                             |
| General operating                     | 3,077,285          | 3,077,285         | 2,966,119    | 111,166                            |
| Public safety:                        |                    |                   |              |                                    |
| Police                                | 5,845,127          | 5,845,127         | 5,613,661    | 231,466                            |
| Building inspection                   | 544,267            | 555,567           | 553,506      | 2,061                              |
| Public works - Administration         | 397,949            | 397,949           | 366,448      | 31,501                             |
| Recreation and culture:               |                    |                   |              |                                    |
| Administration                        | 564,803            | 564,803           | 548,729      | 16,074                             |
| Parks                                 | 584,916            | 584,916           | 572,242      | 12,674                             |
| Kennedy park pool                     | 87,544             | 87,544            | 72,190       | 15,354                             |
| Senior citizens' center               | 231,116            | 231,116           | 207,620      | 23,496                             |
| Senior citizen SMART                  | 59,290             | 59,290            | 52,977       | 6,313                              |
| Community enrichment and development: |                    |                   |              |                                    |
| Planning                              | 30,313             | 50,313            | 40,773       | 9,540                              |
| Beautification                        | 15,832             | 15,832            | 6,421        | 9,411                              |
| Total expenditures                    | 14,255,795         | 14,292,617        | 13,723,915   | 568,702                            |

# City of Eastpointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

|  | Original<br>Budget         | Amended<br>Budget          | Actual                     | Variance with<br>Amended<br>Budget |
|--|----------------------------|----------------------------|----------------------------|------------------------------------|
| <b>Excess of Revenue Over<br/>Expenditures</b> | \$ 1,590,490               | \$ 1,663,442               | \$ 2,353,525               | \$ 690,083                         |
| <b>Other Financing Sources (Uses)</b>          |                            |                            |                            |                                    |
| Transfers in                                   | 603,194                    | 603,194                    | 562,760                    | (40,434)                           |
| Transfers out                                  | <u>(2,728,417)</u>         | <u>(2,854,140)</u>         | <u>(2,752,868)</u>         | <u>101,272</u>                     |
| Total other financing sources (uses)           | <u>(2,125,223)</u>         | <u>(2,250,946)</u>         | <u>(2,190,108)</u>         | <u>60,838</u>                      |
| <b>Net Change in Fund Balance</b>              | (534,733)                  | (587,504)                  | 163,417                    | 750,921                            |
| <b>Fund Balance - Beginning of year</b>        | <u>3,739,520</u>           | <u>3,739,520</u>           | <u>3,739,520</u>           | <u>-</u>                           |
| <b>Fund Balance - End of year</b>              | <u><b>\$ 3,204,787</b></u> | <u><b>\$ 3,152,016</b></u> | <u><b>\$ 3,902,937</b></u> | <u><b>\$ 750,921</b></u>           |

# City of Eastpointe, Michigan

|  | Fire Fund         |                   |                  | Variance<br>with<br>Amended<br>Budget |
|--|-------------------|-------------------|------------------|---------------------------------------|
|  | Original Budget   | Amended<br>Budget | Actual           |                                       |
| <b>Revenue</b>   |                   |                   |                  |                                       |
| Property taxes   | \$ 637,882        | \$ 637,882        | \$ 636,852       | \$ (1,030)                            |
| Federal charges  | -                 | 96,456            | 69,164           | (27,292)                              |
| Charges for services                                   | 305,000           | 305,000           | 346,344          | 41,344                                |
| Interest   | 8,000             | 8,000             | 1,284            | (6,716)                               |
| Other  | -                 | -                 | 2,325            | 2,325                                 |
| Total revenue  | 950,882           | 1,047,338         | 1,055,969        | 8,631                                 |
| <b>Expenditures</b>                                    |                   |                   |                  |                                       |
| Public safety  | 3,015,278         | 3,015,278         | 3,002,813        | 12,465                                |
| Public works   | -                 | -                 | -                | -                                     |
| Total expenditures                                     | 3,015,278         | 3,015,278         | 3,002,813        | 12,465                                |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b> | (2,064,396)       | (1,967,940)       | (1,946,844)      | 21,096                                |
| <b>Other Financing Sources (Uses)</b>                  |                   |                   |                  |                                       |
| Transfers in   | 2,243,332         | 2,317,549         | 2,317,549        | -                                     |
| Transfers out  | (185,500)         | (456,173)         | (456,173)        | -                                     |
| Total other financing sources (uses)                   | 2,057,832         | 1,861,376         | 1,861,376        | -                                     |
| <b>Net Change in Fund Balances</b>                     | (6,564)           | (106,564)         | (85,468)         | 21,096                                |
| <b>Fund Balances - Beginning of year</b>               | 146,741           | 146,741           | 146,741          | -                                     |
| <b>Fund Balances - End of year</b>                     | <u>\$ 140,177</u> | <u>\$ 40,177</u>  | <u>\$ 61,273</u> | <u>\$ 21,096</u>                      |

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Funds**  
**Year Ended June 30, 2004**

| Garbage and Rubbish Collection Fund |                   |                   |                                    |
|-------------------------------------|-------------------|-------------------|------------------------------------|
| Original<br>Budget                  | Amended<br>Budget | Actual            | Variance with<br>Amended<br>Budget |
| \$ 1,647,103                        | \$ 1,647,103      | \$ 1,650,941      | \$ 3,838                           |
| -                                   | -                 | -                 | -                                  |
| -                                   | -                 | -                 | -                                  |
| 10,000                              | 10,000            | 12,381            | 2,381                              |
| -                                   | -                 | -                 | -                                  |
| 1,657,103                           | 1,657,103         | 1,663,322         | 6,219                              |
| -                                   | -                 | -                 | -                                  |
| 1,789,263                           | 1,789,263         | 1,479,750         | 309,513                            |
| 1,789,263                           | 1,789,263         | 1,479,750         | 309,513                            |
| (132,160)                           | (132,160)         | 183,572           | 315,732                            |
| -                                   | -                 | -                 | -                                  |
| -                                   | -                 | -                 | -                                  |
| -                                   | -                 | -                 | -                                  |
| (132,160)                           | (132,160)         | 183,572           | 315,732                            |
| 471,518                             | 471,518           | 471,518           | -                                  |
| <b>\$ 339,358</b>                   | <b>\$ 339,358</b> | <b>\$ 655,090</b> | <b>\$ 315,732</b>                  |

# City of Eastpointe, Michigan

|   | Major Streets Fund |                   |                     | Variance with     |
|---|--------------------|-------------------|---------------------|-------------------|
|   | Original<br>Budget | Amended<br>Budget | Actual              | Amended<br>Budget |
| <b>Revenue</b>                                      |                    |                   |                     |                   |
| State-shared revenue and grants                     | \$ 1,152,263       | \$ 1,152,263      | \$ 1,526,656        | \$ 374,393        |
| Interest  | 2,500              | 2,500             | 12,527              | 10,027            |
| Other   | -                  | -                 | -                   | -                 |
| Total revenue                                       | 1,154,763          | 1,154,763         | 1,539,183           | 384,420           |
| <b>Expenditures - Public works</b>                  | 1,003,785          | 1,003,785         | 610,949             | 392,836           |
| <b>Excess of Revenues Over (Under) Expenditures</b> | 150,978            | 150,978           | 928,234             | 777,256           |
| <b>Other Financing Sources (Uses)</b>               |                    |                   |                     |                   |
| Transfers in  | -                  | -                 | -                   | -                 |
| Transfers out                                       | (198,193)          | (198,193)         | (198,193)           | -                 |
| Total other financing sources (uses)                | (198,193)          | (198,193)         | (198,193)           | -                 |
| <b>Net Change in Fund Balances</b>                  | (47,215)           | (47,215)          | 730,041             | 777,256           |
| <b>Fund Balances - Beginning of year</b>            | 785,580            | 785,580           | 785,580             | -                 |
| <b>Fund Balances - End of year</b>                  | <u>\$ 738,365</u>  | <u>\$ 738,365</u> | <u>\$ 1,515,621</u> | <u>\$ 777,256</u> |

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Funds (Continued)**  
**Year Ended June 30, 2004**

| Local Streets Fund |                   |                   |                                    |
|--------------------|-------------------|-------------------|------------------------------------|
| Original<br>Budget | Amended<br>Budget | Actual            | Variance with<br>Amended<br>Budget |
| \$ 466,923         | \$ 466,923        | \$ 551,793        | \$ 84,870                          |
| 8,000              | 8,000             | 9,851             | 1,851                              |
| -                  | -                 | 5,501             | 5,501                              |
| 474,923            | 474,923           | 567,145           | 92,222                             |
| 1,438,438          | 1,438,438         | 707,072           | 731,366                            |
| (963,515)          | (963,515)         | (139,927)         | 823,588                            |
| 182,693            | 182,693           | 182,693           | -                                  |
| (10,200)           | (10,200)          | (10,200)          | -                                  |
| 172,493            | 172,493           | 172,493           | -                                  |
| (791,022)          | (791,022)         | 32,566            | 823,588                            |
| 851,076            | 851,076           | 851,076           | -                                  |
| <b>\$ 60,054</b>   | <b>\$ 60,054</b>  | <b>\$ 883,642</b> | <b>\$ 823,588</b>                  |

# City of Eastpointe, Michigan

## Required Supplemental Information Retirement System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Overfunded)<br>AAL as a<br>Percentage of<br>Covered<br>Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|---|
| 06/30/98                       | \$ 42,343,648                          | \$ 41,285,899                                     | \$ (1,057,749)                  | 103                                | \$ 7,349,099              | (14)  |
| 06/30/99 *                     | 51,377,333                             | 39,535,364  | (11,841,969)                    | 130                                | 7,845,331                 | (151)   |
| 06/30/00 **                    | 55,708,876                             | 41,289,971  | (14,418,905)                    | 135                                | 8,455,767                 | (171)   |
| 06/30/01                       | 58,294,299                             | 42,719,710  | (15,574,589)                    | 136                                | 8,484,620                 | (184)   |
| 06/30/02 **                    | 58,305,372                             | 45,584,633  | (12,720,739)                    | 128                                | 9,030,827                 | (141)   |
| 06/30/03 **                    | 56,264,305                             | 47,803,994  | (8,460,311)                     | 118                                | 9,266,479                 | (91)  |

\* Includes changes in actuarial assumptions

\*\* Includes changes in benefit provisions



# City of Eastpointe, Michigan

## Required Supplemental Information Retirement System Schedule of Employer Contributions June 30, 2004

The schedule of employer contributions is as follows:

| Fiscal Year<br>Ended June 30 | Actuarial Valuation -<br>Year Ended June 30 | Annual Required<br>Contribution* | Percentage<br>Contributed |
|------------------------------|---|----------------------------------|---------------------------|
| 1999                         | 1998  | \$ 994,664                       | 100                       |
| 2000                         | 1999  | -                                | 100                       |
| 2001                         | 2000  | -                                | 100                       |
| 2002                         | 2001  | 10,978                           | -                         |
| 2003                         | 2002  | 174,637                          | -                         |
| 2004                         | 2003  | 432,939                          | -                         |

\* The required contribution is expressed to the City as a percentage of payroll.

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage. Amounts contributed for health care coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

|                               |                        |
|-------------------------------|------------------------|
| Valuation date                | June 30, 2003          |
| Actuarial cost method         | Individual entry age   |
| Amortization method           | Level percent open     |
| Remaining amortization period | 15 years               |
| Asset valuation method        | 5-year smoothed market |
| Actuarial assumptions:        |                        |
| Investment rate of return     | 8.0%                   |
| Projected salary increases    | 4% - 7%                |
| *Includes inflation at        | 4%                     |
| Cost of living adjustments    | None                   |

## **Other Supplemental Information**

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# City of Eastpointe, Michigan

|                                      | Nonmajor Special                        |                  |                         |                          |                     |
|--------------------------------------|---|------------------|-------------------------|--------------------------|---------------------|
|                                      | Community<br>Development<br>Block Grant | Library          | Drug Law<br>Enforcement | Local Law<br>Enforcement | Juvenile<br>Justice |
| <b>Assets</b>                        |   |                  |                         |                          |                     |
| Cash and cash equivalents            | \$ -                                    | \$ 14,997        | \$ 47,188               | \$ 51,772                | \$ -                |
| Due from other governmental units    | -                                       | 35,760           | -                       | -                        | 8,017               |
| Total assets                         | <u>\$ -</u>                             | <u>\$ 50,757</u> | <u>\$ 47,188</u>        | <u>\$ 51,772</u>         | <u>\$ 8,017</u>     |
| <b>Liabilities and Fund Balances</b> |   |                  |                         |                          |                     |
| <b>Liabilities</b>                   |   |                  |                         |                          |                     |
| Accounts payable                     | \$ -                                    | \$ 18,814        | \$ 3,019                | \$ 9,601                 | \$ -                |
| Accrued and other liabilities        | -                                       | 15,072           | 6,807                   | -                        | 2,205               |
| Due to other funds                   | -                                       | -                | -                       | -                        | 2,420               |
| Total liabilities                    | -                                       | 33,886           | 9,826                   | 9,601                    | 4,625               |
| <b>Fund Balances - Unreserved</b>    |   |                  |                         |                          |                     |
| Designated for debt service          | -                                       | -                | -                       | -                        | -                   |
| Designated for capital improvements  | -                                       | -                | -                       | -                        | -                   |
| Undesignated                         | -                                       | 16,871           | 37,362                  | 42,171                   | 3,392               |
| Total fund balances                  | -                                       | 16,871           | 37,362                  | 42,171                   | 3,392               |
| Total liabilities and fund balances  | <u>\$ -</u>                             | <u>\$ 50,757</u> | <u>\$ 47,188</u>        | <u>\$ 51,772</u>         | <u>\$ 8,017</u>     |

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

| Revenue Funds              |                     |                    |                     | Nonmajor Debt Service Funds |                       |                                     |             |
|----------------------------|---------------------|--------------------|---------------------|-----------------------------|-----------------------|-------------------------------------|-------------|
| Welfare and<br>Catastrophe | Community<br>Center | Eastpointe<br>Fire | Memorial<br>Library | Debt Service                | Building<br>Authority | Chapter 20<br>Drain Debt<br>Service | Act 342     |
| \$ 20,835                  | \$ 12,389           | \$ 554             | \$ 1,941            | \$ 177,366                  | \$ 292                | \$ 132,028                          | \$ -        |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                   | -           |
| <b>\$ 20,835</b>           | <b>\$ 12,389</b>    | <b>\$ 554</b>      | <b>\$ 1,941</b>     | <b>\$ 177,366</b>           | <b>\$ 292</b>         | <b>\$ 132,028</b>                   | <b>\$ -</b> |
|                            |                     |                    |                     |                             |                       |                                     |             |
| \$ -                       | \$ -                | \$ -               | \$ -                | \$ -                        | \$ -                  | \$ -                                | \$ -        |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                   | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                   | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                   | -           |
| -                          | -                   | -                  | -                   | 177,366                     | 292                   | 132,028                             | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                   | -           |
| 20,835                     | 12,389              | 554                | 1,941               | -                           | -                     | -                                   | -           |
| 20,835                     | 12,389              | 554                | 1,941               | 177,366                     | 292                   | 132,028                             | -           |
| <b>\$ 20,835</b>           | <b>\$ 12,389</b>    | <b>\$ 554</b>      | <b>\$ 1,941</b>     | <b>\$ 177,366</b>           | <b>\$ 292</b>         | <b>\$ 132,028</b>                   | <b>\$ -</b> |

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2004

|  | Nonmajor Capital Projects<br>Funds |                                       | Total Nonmajor<br>Governmental<br>Funds |
|--|------------------------------------|---------------------------------------|---|
|  | Equipment<br>Replacement           | Building<br>Authority<br>Construction |   |
| <b>Assets</b>                          |                                    |                                       |   |
| Cash and cash equivalents              | \$ 344,757                         | \$ 60,947                             | \$ 865,066                              |
| Due from other governmental units      | 4,191                              | -                                     | 47,968                                  |
| Total assets                           | <b>\$ 348,948</b>                  | <b>\$ 60,947</b>                      | <b>\$ 913,034</b>                       |
| <b>Liabilities and Fund Balances</b>   |                                    |                                       |   |
| <b>Liabilities</b>                     |                                    |                                       |   |
| Accounts payable                       | \$ 37,880                          | \$ -                                  | \$ 69,314                               |
| Accrued and other liabilities          | -                                  | -                                     | 24,084                                  |
| Due to other funds                     | -                                  | -                                     | 2,420                                   |
| Total liabilities                      | 37,880                             | -                                     | 95,818                                  |
| <b>Fund Balances - Unreserved</b>      |                                    |                                       |   |
| Designated for debt service            | -                                  | -                                     | 309,686                                 |
| Designated for capital improvements    | 311,068                            | 60,947                                | 372,015                                 |
| Undesignated                           | -                                  | -                                     | 135,515                                 |
| Total fund balances                    | 311,068                            | 60,947                                | 817,216                                 |
| Total liabilities and<br>fund balances | <b>\$ 348,948</b>                  | <b>\$ 60,947</b>                      | <b>\$ 913,034</b>                       |

# City of Eastpointe, Michigan

|  | Nonmajor Special      |                  |                      |                       |                  |
|--|-----------------------|------------------|----------------------|-----------------------|------------------|
|  | Community Development | Library          | Drug Law Enforcement | Local Law Enforcement | Juvenile Justice |
|  | Block Grant           |                  |                      |                       |                  |
| <b>Revenue</b>                           |                       |                  |                      |                       |                  |
| Property taxes                           | \$ -                  | \$ 601,179       | \$ -                 | \$ -                  | \$ -             |
| Intergovernmental:                       |                       |                  |                      |                       |                  |
| Federal sources                          | -                     | -                | -                    | 34,033                | 57,429           |
| State sources                            | -                     | 29,686           | -                    | -                     | -                |
| Charges for services                     | -                     | 3,366            | -                    | -                     | -                |
| Rental income                            | -                     | 689              | -                    | -                     | -                |
| Fines and forfeits                       | -                     | 58,848           | 94,317               | -                     | -                |
| Interest                                 | -                     | 1,538            | 496                  | 176                   | -                |
| Other                                    | -                     | -                | 100                  | -                     | 26,050           |
| Total revenue                            | -                     | 695,306          | 94,913               | 34,209                | 83,479           |
| <b>Expenditures</b>                      |                       |                  |                      |                       |                  |
| Current:                                 |                       |                  |                      |                       |                  |
| Public safety                            | -                     | -                | 133,828              | 17,064                | 80,087           |
| Public works                             | -                     | -                | -                    | -                     | -                |
| Recreation and culture                   | -                     | 737,685          | -                    | -                     | -                |
| Capital outlay                           | -                     | -                | -                    | -                     | -                |
| Debt service:                            |                       |                  |                      |                       |                  |
| Principal                                | -                     | -                | -                    | -                     | -                |
| Interest                                 | -                     | -                | -                    | -                     | -                |
| Total expenditures                       | -                     | 737,685          | 133,828              | 17,064                | 80,087           |
| <b>Excess of Revenue Over (Under)</b>    |                       |                  |                      |                       |                  |
| <b>Expenditures</b>                      | -                     | (42,379)         | (38,915)             | 17,145                | 3,392            |
| <b>Other Financing Sources (Uses)</b>    |                       |                  |                      |                       |                  |
| Transfers in                             | -                     | -                | 11,000               | 3,781                 | -                |
| Transfers out                            | -                     | -                | -                    | -                     | -                |
| Total other financing sources (uses)     | -                     | -                | 11,000               | 3,781                 | -                |
| <b>Net Change in Fund Balances</b>       | -                     | (42,379)         | (27,915)             | 20,926                | 3,392            |
| <b>Fund Balances - Beginning of year</b> | -                     | 59,250           | 65,277               | 21,245                | -                |
| <b>Fund Balances - End of year</b>       | <u>\$ -</u>           | <u>\$ 16,871</u> | <u>\$ 37,362</u>     | <u>\$ 42,171</u>      | <u>\$ 3,392</u>  |

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

| Revenue Funds              |                     |                    |                     | Nonmajor Debt Service Funds |                       |                                  |             |
|----------------------------|---------------------|--------------------|---------------------|-----------------------------|-----------------------|----------------------------------|-------------|
| Welfare and<br>Catastrophe | Community<br>Center | Eastpointe<br>Fire | Memorial<br>Library | Debt Service                | Building<br>Authority | Chapter 20 Drain<br>Debt Service | Act 342     |
| \$ -                       | \$ -                | \$ -               | \$ -                | \$ -                        | \$ -                  | \$ 774,649                       | \$ -        |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| 257                        | 147                 | 14                 | 55                  | 879                         | -                     | 3,740                            | -           |
| -                          | 2,750               | -                  | 550                 | -                           | -                     | -                                | -           |
| 257                        | 2,897               | 14                 | 605                 | 879                         | -                     | 778,389                          | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | 2,154              | 6,085               | -                           | 300                   | 730,524                          | -           |
| -                          | 2,874               | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | -           |
| -                          | -                   | -                  | -                   | 337,224                     | 235,000               | -                                | -           |
| -                          | -                   | -                  | -                   | 302,450                     | 185,138               | -                                | -           |
| -                          | 2,874               | 2,154              | 6,085               | 639,674                     | 420,438               | 730,524                          | -           |
| 257                        | 23                  | (2,140)            | (5,480)             | (638,795)                   | (420,438)             | 47,865                           | -           |
| -                          | -                   | -                  | -                   | 707,523                     | 420,538               | -                                | -           |
| -                          | -                   | -                  | -                   | -                           | -                     | -                                | (19,166)    |
| -                          | -                   | -                  | -                   | 707,523                     | 420,538               | -                                | (19,166)    |
| 257                        | 23                  | (2,140)            | (5,480)             | 68,728                      | 100                   | 47,865                           | (19,166)    |
| 20,578                     | 12,366              | 2,694              | 7,421               | 108,638                     | 192                   | 84,163                           | 19,166      |
| <b>\$ 20,835</b>           | <b>\$ 12,389</b>    | <b>\$ 554</b>      | <b>\$ 1,941</b>     | <b>\$ 177,366</b>           | <b>\$ 292</b>         | <b>\$ 132,028</b>                | <b>\$ -</b> |

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2004

|  | Nonmajor Capital Projects Funds |                                    | Total Nonmajor        |
|--|---------------------------------|------------------------------------|-----------------------|
|  | Equipment<br>Replacement        | Building Authority<br>Construction | Governmental<br>Funds |
| <b>Revenue</b>                           |                                 |                                    |                       |
| Property taxes                           | \$ -                            | \$ -                               | \$ 1,375,828          |
| Intergovernmental:                       |                                 |                                    |                       |
| Federal sources                          | -                               | -                                  | 91,462                |
| State sources                            | -                               | -                                  | 29,686                |
| Charges for services                     | -                               | -                                  | 3,366                 |
| Rental income                            | 135,832                         | -                                  | 136,521               |
| Fines and forfeits                       | -                               | -                                  | 153,165               |
| Interest                                 | 2,987                           | 597                                | 10,886                |
| Other                                    | -                               | -                                  | 29,450                |
| Total revenue                            | 138,819                         | 597                                | 1,830,364             |
| <b>Expenditures</b>                      |                                 |                                    |                       |
| Current:                                 |                                 |                                    |                       |
| Public safety                            | -                               | -                                  | 230,979               |
| Public works                             | -                               | -                                  | 739,063               |
| Recreation and culture                   | -                               | -                                  | 740,559               |
| Capital outlay                           | 621,231                         | 9,328                              | 630,559               |
| Debt service:                            |                                 |                                    |                       |
| Principal                                | -                               | -                                  | 572,224               |
| Interest                                 | -                               | -                                  | 487,588               |
| Total expenditures                       | 621,231                         | 9,328                              | 3,400,972             |
| <b>Excess of Revenue Over (Under)</b>    |                                 |                                    |                       |
| <b>Expenditures</b>                      | (482,412)                       | (8,731)                            | (1,570,608)           |
| <b>Other Financing Sources (Uses)</b>    |                                 |                                    |                       |
| Transfers in                             | 456,173                         | -                                  | 1,599,015             |
| Transfers out                            | -                               | -                                  | (19,166)              |
| Total other financing sources (uses)     | 456,173                         | -                                  | 1,579,849             |
| <b>Net Change in Fund Balances</b>       | (26,239)                        | (8,731)                            | 9,241                 |
| <b>Fund Balances - Beginning of year</b> | 337,307                         | 69,678                             | 807,975               |
| <b>Fund Balances - End of year</b>       | <b>\$ 311,068</b>               | <b>\$ 60,947</b>                   | <b>\$ 817,216</b>     |



# City of Eastpointe, Michigan

|   | Pension and Other Employee Benefit Trust Funds |                             |                        |                      |
|---|--|-----------------------------|------------------------|----------------------|
|   | Employees'<br>Retirement<br>System             | Employees'<br>Death Benefit | Retiree Health<br>Care | Totals               |
| <b>Assets</b>   |  |                             |                        |                      |
| Cash and cash equivalents   | \$ 12,230,690                                  | \$ 9,090                    | \$ 718,247             | \$ 12,958,027        |
| Investments   | <u>35,440,814</u>                              | <u>815,936</u>              | <u>572,233</u>         | <u>36,828,983</u>    |
| Total assets  | 47,671,504                                     | 825,026                     | 1,290,480              | 49,787,010           |
| <b>Liabilities</b>  |  |                             |                        |                      |
| Accounts payable  | 48,480   | 518                         | 288,777                | 337,775              |
| Accrued liabilities   | <u>-</u>                                       | <u>-</u>                    | <u>-</u>               | <u>-</u>             |
| Total liabilities   | <u>48,480</u>                                  | <u>518</u>                  | <u>288,777</u>         | <u>337,775</u>       |
| <b>Net Assets</b> - Held in trust for<br>pension and other employee<br>benefits | <u>\$ 47,623,024</u>                           | <u>\$ 824,508</u>           | <u>\$ 1,001,703</u>    | <u>\$ 49,449,235</u> |

**Other Supplemental Information  
Combining Statement of Net Assets  
Fiduciary Funds  
June 30, 2004**

| Agency Funds                     |                     |                         |                      |                          |
|----------------------------------|---------------------|-------------------------|----------------------|--------------------------|
| Cash and<br>Performance<br>Bonds | Imprest<br>Payroll  | Municipal<br>Court      | AFLAC                | Total                    |
| \$ 25,375                        | \$ 38               | \$ 97,295               | \$ 996               | \$ 123,704               |
| -                                | -                   | -                       | -                    | -                        |
| <b><u>\$ 25,375</u></b>          | <b><u>\$ 38</u></b> | <b><u>\$ 97,295</u></b> | <b><u>\$ 996</u></b> | <b><u>\$ 123,704</u></b> |
|                                  |                     |                         |                      |                          |
| \$ -                             | \$ -                | \$ -                    | \$ -                 | \$ -                     |
| 25,375                           | 38                  | 97,295                  | 996                  | 123,704                  |
| <b><u>\$ 25,375</u></b>          | <b><u>\$ 38</u></b> | <b><u>\$ 97,295</u></b> | <b><u>\$ 996</u></b> | <b><u>\$ 123,704</u></b> |

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2004

|   | Employees'<br>Retirement<br>System | Employees'<br>Death Benefit | Retiree Health<br>Care | Totals               |
|---|------------------------------------|-----------------------------|------------------------|----------------------|
| <b>Additions</b>                            |                                    |                             |                        |                      |
| Investment income (loss):                   |                                    |                             |                        |                      |
| Interest and dividends                      | \$ 1,150,436                       | \$ 44,185                   | \$ 58,207              | \$ 1,252,828         |
| Net adjustment to fair value of investments | 3,874,075                          | (19,158)                    | 45,269                 | 3,900,186            |
| Less investment expenses                    | (300,879)                          | -                           | -                      | (300,879)            |
| Net investment income                       | 4,723,632                          | 25,027                      | 103,476                | 4,852,135            |
| Employer contributions                      | -                                  | -                           | 1,631,396              | 1,631,396            |
| Total additions                             | 4,723,632                          | 25,027                      | 1,734,872              | 6,483,531            |
| <b>Deductions</b>                           |                                    |                             |                        |                      |
| Benefit payments                            | 2,904,302                          | 13,518                      | -                      | 2,917,820            |
| Health insurance premiums                   | -                                  | -                           | 1,570,270              | 1,570,270            |
| Administrative expenses                     | 7,875                              | -                           | -                      | 7,875                |
| Total deductions                            | 2,912,177                          | 13,518                      | 1,570,270              | 4,495,965            |
| <b>Change in Net Assets</b>                 | 1,811,455                          | 11,509                      | 164,602                | 1,987,566            |
| <b>Net Assets - Beginning of year</b>       | 45,811,569                         | 812,999                     | 837,101                | 47,461,669           |
| <b>Net Assets - End of year</b>             | <b>\$ 47,623,024</b>               | <b>\$ 824,508</b>           | <b>\$ 1,001,703</b>    | <b>\$ 49,449,235</b> |

# City of Eastpointe, Michigan

## Schedule of Indebtedness June 30, 2004

| Description  | Interest<br>Rate<br>(Percent) | Date of Maturity | Amount of<br>Annual<br>Maturity | Principal Outstanding |            |
|--|-------------------------------|------------------|---------------------------------|-----------------------|------------|
|  |                               |                  |                                 | June 30               |            |
|  |                               |                  |                                 | 2004                  | 2003       |
| <b>County Drain Contract</b>                             |                               |                  |                                 |                       |            |
| Lake St. Clair Clean Water Initiative Drainage District: |                               |                  |                                 |                       |            |
| Drainage District Bonds:                                 |                               |                  |                                 |                       |            |
| Date of issue - Various                                  |                               |                  |                                 |                       |            |
| Amount of issue - \$11,328,038                           |                               |                  |                                 |                       |            |
|  | Various                       | 10/01/03         | \$ 337,224                      | \$ -                  | \$ 337,224 |
|  | Various                       | 10/01/04         | 395,235                         | 395,235               | 378,739    |
|  | Various                       | 10/01/05         | 432,410                         | 432,410               | 392,930    |
|  | Various                       | 10/01/06         | 443,309                         | 443,309               | 402,493    |
|  | Various                       | 10/01/07         | 453,272                         | 453,272               | 412,056    |
|  | Various                       | 10/01/08         | 464,843                         | 464,843               | 422,911    |
|  | Various                       | 10/01/09         | 506,045                         | 506,045               | 434,139    |
|  | Various                       | 10/01/10         | 506,046                         | 506,046               | 447,706    |
|  | Various                       | 10/01/11         | 506,046                         | 506,046               | 458,560    |
|  | Various                       | 10/01/12         | 506,046                         | 506,046               | 470,434    |
|  | Various                       | 10/01/13         | 506,046                         | 506,046               | 484,625    |
|  | Various                       | 10/01/14         | 581,075                         | 581,075               | 497,186    |
|  | Various                       | 10/01/15         | 581,075                         | 581,075               | 509,728    |
|  | Various                       | 10/01/16         | 581,075                         | 581,075               | 525,209    |
|  | Various                       | 10/01/17         | 581,075                         | 581,075               | 539,457    |
|  | Various                       | 10/01/18         | 581,075                         | 581,075               | 556,271    |
|  | Various                       | 10/01/19         | 558,206                         | 558,206               | 572,772    |
|  | Various                       | 10/01/20         | 558,206                         | 558,206               | 585,980    |
|  | Various                       | 10/01/21         | 558,206                         | 558,206               | 604,854    |
|  | Various                       | 10/01/22         | 558,206                         | 558,206               | 174,298    |
|  | Various                       | 10/01/23         | 558,206                         | 558,206               | 117,357    |
|  | Various                       | 10/01/24         | 147,454                         | 147,454               | 84,926     |
|  | Various                       | 10/01/25         | 147,454                         | 147,454               | 89,315     |
|  | Various                       | 10/01/26         | 147,454                         | 147,454               | 94,371     |
|  | Various                       | 10/01/27         | 147,454                         | 147,454               | 99,427     |
|  | Various                       | 10/01/28         | 147,454                         | 147,454               | 104,482    |
|  | Various                       | 10/01/29         | 175,065                         | 175,065               | 110,207    |
| Total County Drain Contract                              |                               |                  |                                 | 11,328,038            | 9,907,657  |

# City of Eastpointe, Michigan

## Schedule of Indebtedness (Continued) June 30, 2004

| Description                                  | Interest<br>Rate<br>(Percent) | Date of Maturity | Amount of<br>Annual<br>Maturity | Principal Outstanding |                      |
|--|-------------------------------|------------------|---------------------------------|-----------------------|----------------------|
|  |                               |                  |                                 | June 30               |                      |
|  |                               |                  |                                 | 2004                  | 2003                 |
| <b>General Obligation Bonds</b>              |                               |                  |                                 |                       |                      |
| Building Authority General Obligation Bonds: |                               |                  |                                 |                       |                      |
| Date of issue - August 20, 1998              |                               |                  |                                 |                       |                      |
| Amount of issue - \$4,400,000                |                               |                  |                                 |                       |                      |
|  | 4.25                          | 05/01/04         | \$ 235,000                      | \$ -                  | \$ 235,000           |
|  | 4.30                          | 05/01/05         | 265,000                         | 265,000               | 265,000              |
|  | 4.35                          | 05/01/06         | 290,000                         | 290,000               | 290,000              |
|  | 4.40                          | 05/01/07         | 325,000                         | 325,000               | 325,000              |
|  | 4.45                          | 05/01/08         | 355,000                         | 355,000               | 355,000              |
|  | 4.50                          | 05/01/09         | 390,000                         | 390,000               | 390,000              |
|  | 4.55                          | 05/01/10         | 420,000                         | 420,000               | 420,000              |
|  | 4.60                          | 05/01/11         | 460,000                         | 460,000               | 460,000              |
|  | 4.65                          | 05/01/12         | 455,000                         | 455,000               | 455,000              |
|  | 4.70                          | 05/01/13         | 450,000                         | 450,000               | 450,000              |
|  | 4.70                          | 05/01/14         | 445,000                         | 445,000               | 445,000              |
| Total General Obligation Bonds               |                               |                  |                                 | 3,855,000             | 4,090,000            |
| Total indebtedness                           |                               |                  |                                 | <b>\$ 15,183,038</b>  | <b>\$ 13,997,657</b> |

October 29, 2004

The Honorable Mayor  
and Members of the City Council  
City of Eastpointe  
23200 Gratiot Avenue  
Eastpointe, MI 48021

Dear Mayor and Council Members:

We have recently completed the audit of the financial statements of the City of Eastpointe for the year ended June 30, 2004. In addition to the audit report, we offer the following comments and recommendations for your consideration:

### **WATER AND SEWER OPERATIONS**

The City bills for water usage and sewage disposal on a quarterly basis. Approximately 50 percent of all billings are based on estimated meter readings. We encourage the City to review its procedures for obtaining actual meter reads. Many municipalities have been able to improve the efficiency of the meter reading process by implementing electronic meter reads. We recommend the City consider the implementation of electronic meter reads to gain efficiency and accuracy in the meter reading process. Decreasing the number of readings estimated may also produce a more accurate calculation of the City's water loss.

Also during our testing of water and sewer, we noticed that the receivable for delinquent water bills is approximately \$1.1 million. When residents are delinquent in paying their water bills, rather than shutting off the resident's water, the City places the charges and penalties on the resident's tax bill. It would appear that many residents are taking advantage of this policy. We recommend the City consider the impact on the timing of cash flows using this policy vs. the impact of denying water usage to residents that are delinquent.

### **CREDIT CARD POLICY**

Upon review of the City's Credit Card Usage policy, we noted the policy is outdated and includes names of individuals no longer employed with the City. We suggest that the City update the resolution and policy to reflect current practices.

### **CONTRACTS PAYABLE**

During our testing of contracts payable, we noticed instances in which documentation could not be provided to substantiate construction payments made to a particular vendor. While the City has a contract with this vendor, the vendor does not bill the City for work performed. Rather, the City inspects the work performed and then submits payments to the vendor. Evidence could not be provided to document when the work was completed or how the amount paid was substantiated. An essential bookkeeping and internal control function is the safekeeping and filing of documentation, which supports all general ledger transactions. We recommend requesting and maintaining adequate documentation from all vendors to support general ledger transactions.

### **PENSION PLAN**

The City currently participates in a single retirement plan which encompasses three separate employee groups – General Government, Police, and Fire. Since each employee group is entitled to different benefits, the actuarial determined contribution amount is calculated per employee group. The annual required contribution, determined as part of an actuarial valuation at June 30, 2003, was calculated as follows:

|                    |                  |
|--------------------|------------------|
| General Government | \$ -             |
| Police             | 364,057          |
| Fire               | <u>68,882</u>    |
| Total              | <u>\$432,939</u> |

The City made no contributions to the plan during the year ended June 30, 2004 because the plan was overfunded in total. In the future, we recommend that the Pension Board approve the calculation by the actuary taking into account the combined funding status of all three employee groups. This would reduce the annual required contribution by the City. Without this change in the calculation method, we recommend making the annual required contribution such as indicated above.

### **OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

**OTHER POST EMPLOYMENT BENEFITS (OPEB)** (continued)

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under-funding must be reported as a liability on the government wide statement of net assets. For the City of Eastpointe, this valuation will need to be performed by an actuary at least every other year.

Currently, the City is recognizing this expenditure on a "pay as you go" basis. As indicated in the City's Financial Report, for the year ended June 30, 2004 (Note 9), this expenditure amounted to approximately \$1,570,000. The City's OPEB obligation on an actuarial basis would be significantly more, possibly two to three times as much.

This statement is being phased in over a three year period, similar to GASB 34. For the City of Eastpointe, it is effective for the year beginning on July 1, 2008.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to compliment Sue Mancani and her staff for the excellent condition of the City's financial records, and thank them for their assistance and cooperation during the audit. If you would like to discuss any of these matters further, or would like any other assistance, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**



Bruce M. Berend



Jenny L. Cederstrom